DOCUMENT RESUME

ED 172 667 HE 011 477

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TITLE Private Colleges: Are They Pricing Themselves Out of the Market?
PUB DATE 30 Oct 78
NOTE 21p.; Speech presented to the College Board annual meeting (October 30, 1978); Based on a study sponsored by the Consortium on Financing Higher Education and Supported by the Alfred Sloan Foundation; Best copy available

EDRS PRICE MF01/PC01 Plus Postage.
DESCRIPTORS Academic Ability; Caucasians; *College Choice; *Educational Finance; Educational Quality; Financial Problems; Higher Education; Minority Groups; Parental Financial Contribution; *Private Colleges; Socioeconomic Status; *Student Costs; *Tuition
IDENTIFIERS *College Applicants

ABSTRACT

The question of whether private colleges are pricing themselves out of the market is considered. An analysis of the actual application patterns of a sample of high-ability students indicates that colleges and universities are not pricing themselves out of the market. Despite substantial increases in tuition and other fees over the last several years, expensive private institutions continue to attract large numbers of qualified applicants from a wide variety of socioeconomic backgrounds. The major determinants of college choice for high-ability students and their families seem to be the academic ability of the student and the academic reputation of the institutions. Through a combination of the family's own resources and financial aid provided by various sources, families manage to come up with the $8000 plus it takes to attend one of these schools. The finding appears to be as true for low-income and middle-income families as it is for high-income families, and even more true for minority students than for whites. It may be that this finding holds only for students near the top of the ability range of college applicants. Figures are included to show the tradeoff between cost and quality, the relationship between application rates and the student's academic ability and family income, the general relationship between application rates and family income broken down by income category, and white and nonwhite applications to selective schools. (SW)

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Speech to the Annual Meeting of the
College Board: October 30, 1978
Richard R. Spies*

PRIVATE COLLEGES: ARE THEY PRICING THEMSELVES OUT OF THE MARKET?

Aren't private colleges and universities going to end up pricing themselves out of the market? Princeton's tuition is now $5100 and total costs exceed $8000: how can the average family afford to send a son or daughter to a college that costs that much? These are the kinds of questions that provided the motivation for the study I am about to describe.

As you may have guessed from my place on the program today, my position on this issue is that schools like Princeton are not pricing themselves out of the market, that the fairly rapid increases in tuition and other student charges most of us have experienced over the last five to ten years have not had any adverse impact on the number or quality -- or the diversity -- of students who apply to and attend our colleges and universities. Judging from the response to our report, however, I suspect that I am in a very small minority in this view. Very few people will believe that money plays a relatively minor role in the typical student's choice of a college. Indeed, most people react like a woman from northern New Jersey who read a newspaper account of my study.

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*Richard R. Spies is associate provost at Princeton University. This article is based on a study sponsored by the Consortium on Financing Higher Education and supported by the Alfred P. Sloan Foundation. A more detailed report of these findings can be found in his monograph, The Effect of Rising Costs on College Choice: A Study of the Application Decisions of High Ability Students, published by the College Board.

> "I read the story on your so-called study with utter disbelief. How can an economist such as yourself say that students are not heavily influenced by financial considerations in their choice of a college when everyone knows that money is very important?"

She was gracious enough to conclude her letter by saying that she would be happy to listen to anything else I might have to say when I came up with findings that were "more reasonable," but in general it was not a very complimentary letter. I suspect that this parent is typical of many people who speak out against tuition increases: "I don't want to hear about these fancy studies, I know money is a major factor in picking a college." Because this whole question has been dominated by myth and anecdotal evidence in recent years, this study seems to me to be particularly important at this point in time.

Actual Application Patterns.

An analysis of the actual application patterns of a sample of high-ability students indicates that colleges and universities are not pricing themselves out of the market. Despite substantial increases in tuition and other fees over the last several years, expensive private institutions continue to attract large numbers of qualified applicants from a wide variety of socio-economic backgrounds. Indeed, my analysis indicates that high-ability students and their families are relatively unaffected by purely financial considerations. Instead, for these families, the major determinants of college choice seem to be the academic ability of the student and the

academic reputation of the institution. For high-ability students (and their families), it appears that educational factors far outweigh any financial considerations in the choice of a college. Somehow -- through a combination of the family's own resources and financial aid provided by various government programs and by the institutions themselves -- families manage to come up with the $8000 plus it takes to attend one of these schools. It would never argue that it is easy or painless for families to meet these costs -- or that it has ever been easy or painless for such families. Rather I would argue that families have generally shown themselves willing to make the necessary sacrifices as long as they believe that the education being provided by these institutions is first-rate. Moreover, my results indicate that this finding is just as true for low- and middle-income families as it is for high-income families -- and interestingly enough, even more true for minority students than for whites. Ironically, my pen pal from northern New Jersey substantiates this finding completely, even if she doesn't agree with it: a major part of her letter is devoted to a long explanation of the sacrifices her own family is making to send their two children to very expensive private colleges.

This finding is, of course, contrary to the popular view of the situation, and it may well be that it holds only for students near the top of the ability range of college applicants. Still, for these students and these institutions, it appears that a single-minded, all-out effort on the part of the colleges to keep student charges down would probably do more to discourage applications from high-ability students than a large increase in fees. Students and their

families are willing to pay the high cost of attending these institutions, but only as long as they see a real difference in the quality of the education they receive.

Figure 1 shows explicitly this tradeoff between cost and quality. The left-hand side of the diagram shows what happens to application rates as the selectivity of the institution increases, holding everything else constant. (Here selectivity is measured by the average SAT score of enrolled students and is used as a proxy for academic reputation or quality.) The right-hand side of the diagram shows the effects of changes in student charges on the same application rates. It is not clear whether a 100-point change in institutional selectivity is more or less dramatic than a $1000 change in student fees, but it is still possible to make some intuitive comparisons. For example, an increase in institutional selectivity from 1150 to 1200 -- keeping tuition and other fees constant -- results in an increase in application rates of approximately 5 percentage points (from 11% to 16%). To achieve the same result by lowering student charges -- while somehow holding academic quality at the same level -- that same institution would have to reduce student fees from $6,000 to $3,000. By any reasonable standard of comparison, it seems clear -- to me anyway -- that academic selectivity has a much more pronounced impact on application rates than student charges. Obviously, academic quality and the level of student charges are related to one another, but, when their effects are sorted out and isolated, it appears that students and their families are much more likely to respond to quality differentials than they are to comparable differences in cost.

Selective Private Colleges

In addition to the kind of general analysis summarized in this last figure, special attention was given in this study to the particular problems of the most selective -- and most expensive -- private colleges and universities. Even though the overall number of applicants to such schools has risen in recent years, there is considerable concern -- on the part of faculty and administrators in those institutions as well as students and their families -- that costs are so high that most students from low- and middle-income families will simply not be able to afford them. Again, the fear is that such schools are pricing themselves out of the market, at least for some groups of students.

Figure 2 describes the relationship between application rates for such schools and two of the major determinants of college choice: the student's academic ability, as measured by combined SAT scores, and family income. It is clear from this figure that SAT scores have a dramatic effect on a student's willingness to apply to colleges and universities in this category; family income on the other hand, seems to play a much less important role in this decision. Take, for example, the case of a student with combined SAT scores of 1200 and a family income of $20,000. An increase of only 90 points in that student's SAT score -- e.g., 45 points each on the Math and Verbal exams -- would have the same effect on his or her application decision as would an increase of $30,000 in family income. A difference of 90 points in a student's SAT score is not trivial, but it seems much less dramatic than an increase of $30,000 in family income.

Again, academic ability and family income are often correlated, but, once the separate effects of the two variables are sorted out, the evidence shows quite clearly that ability is by far the more important factor in influencing students' college decisions.

"Middle-Income Squeeze"

In addition to a general concern about the total number of applicants at the selective private colleges, many people worry that certain sub-groups of students will be discouraged by the high cost of attending one of these institutions. One group that has been discussed widely in this context is the middle-income student. The popular perception of application patterns is that middle-income students are being "squeezed" out: students from high-income families can afford to pay the high cost charged by these schools and low-income students are provided with enough financial aid that the cost is largely irrelevant for them, but the people in the middle feel every dollar of increase directly and painfully.

Our analysis provides no support at all for the "middle-income squeeze" hypothesis. Figure 3 shows what happens when the general relationship between family income and application rates is broken down by income category. If there were such a phenomenon as a middle-income squeeze, such an analysis would show lower application rates for middle-income students -- those in the $20,000-$35,000 categories, for example, -- than for those on either side. Obviously, this figure does not reveal any such pattern. With some minor (statistically insignificant) fluctuations, the application rate is

simply level for all income groups up to $35,000. Although, both groups are less likely to apply to these institutions than students from high-income families, middle-income students are not any less likely to apply than their low-income counterparts.

One possible explanation for this application pattern is that the financial aid policies at these schools, far from protecting low-income students and squeezing out those in the middle-income groups, accomplish exactly what they are supposed to accomplish; that is, they equalize the burden for all students who are eligible for aid. With annual costs of as much as $8,000, families with incomes in the $35,000 range are routinely eligible for financial aid at these institutions. The financial aid programs of most of the schools in these groups are designed to assist all aid students and their families to meet the high cost of college, by requiring of them only what they can be reasonably expected to pay. The fact that application rates are similar for low- and middle-income students, holding everything else constant, seems to indicate that these aid programs are accomplishing just that. In effect, students in the low- and middle-income ranges are acting as if the burdens on them had been equalized.

Minority Students

Another subgroup which has been the focus of some attention at these institutions is the minority student group. Many people have expressed a concern about the effect that high costs have on application rates for minority students, particularly those from low-income families. It is normally

assumed that the financial problems of attending a high-cost private institution will weigh more heavily on the decisions of low-income minority families than for low-income whites. The fact of the matter is quite the opposite, however. Figure 4 shows that non-white students are considerably more likely to apply to such colleges than are white students in the same income categories, after correcting for differences in SAT scores and other such variables. In addition, the diagram indicates that the application decisions of minority students are influenced less by family income than are those of white students in similar circumstances.

One explanation for this result is that minority students have been the focus of active recruiting efforts at most of these colleges and universities. In order to broaden the pool of minority applicants, many colleges have encouraged applications from minority students, and they have made a concerted effort to make students and their families aware of the financial aid resources that are available. From Figure 4 it appears that these recruiting efforts have had a major, successful effect on application rates among minority students.

Financial Aid

Finally, Figure 5 was developed in order to examine more closely the effects of financial aid on application patterns. In this graph, application rates are shown separately for students who apply for financial aid and for those who elected not to apply for aid at any of the colleges to which they applied. As one might expect, students in the low- and middle-income ranges

who are well enough informed to apply for financial aid -- and presumably have some hope of actually receiving some financial aid -- are more likely to apply to an expensive private college than are those students in the same income categories who think, correctly or incorrectly, that they will have to pay their own way.

As income rises in these ranges, the liklihood of applying to selected colleges increases very little for aid applicants. This pattern is exactly what would be expected if students understood how financial aid programs work at these institutions: an increase in family income normally results in a smaller aid package, based on the family's increased ability to pay. Indeed, the express purpose of the kind of financial aid policy followed by most of these colleges is to neutralize the effects of income differences for low- and middle-income students by expecting of them only what they can reasonably afford to pay, thus reducing the importance of income as a consideration in their application decisions. For students who do not understand these aid policies, however, an increase in family income will have some impact on their application decisions because it affects directly their ability to pay what they perceive to be the high cost of a college in this category. At some point on the income scale -- just over $40,000 according to Figure 5 -- the expectation of receiving significant amounts of financial aid is so small that aid ceases to be a factor in the application decisions. At that point, income begins to play much the same role for the aid applicant that it does for students who do not apply for aid.

Conclusion

It is, of course, impossible to say that the selective private colleges will never price themselves out of the market, or that some individual institutions may not have done so already. However, the results of this study indicate that large numbers of qualified students are willing to pay for what they perceive to be a superior education, despite its very high cost. By preserving the strength of their academic programs, I believe these institutions can continue to attract such students. Moreover, by maintaining their commitment to substantial programs of need-based financial aid, they can maintain -- and possibly even enhance -- the economic and cultural diversity of those applicant pools. At this point, the concerns about the rapidly rising costs of the expensive private institutions and their effect on applicant pools appear to be vastly overstated. The greatest danger now may be that crucial academic programs will be cut dractically at these institutions, in an effort to keep student charges from rising. It is possible that such action will end up destroying the very thing that makes students willing to pay these high costs, and then the effect on the applicant pool could be dramatic. Keeping student charges from rising might be good politics, but for many of us it could be both bad educational policy and bad economics.

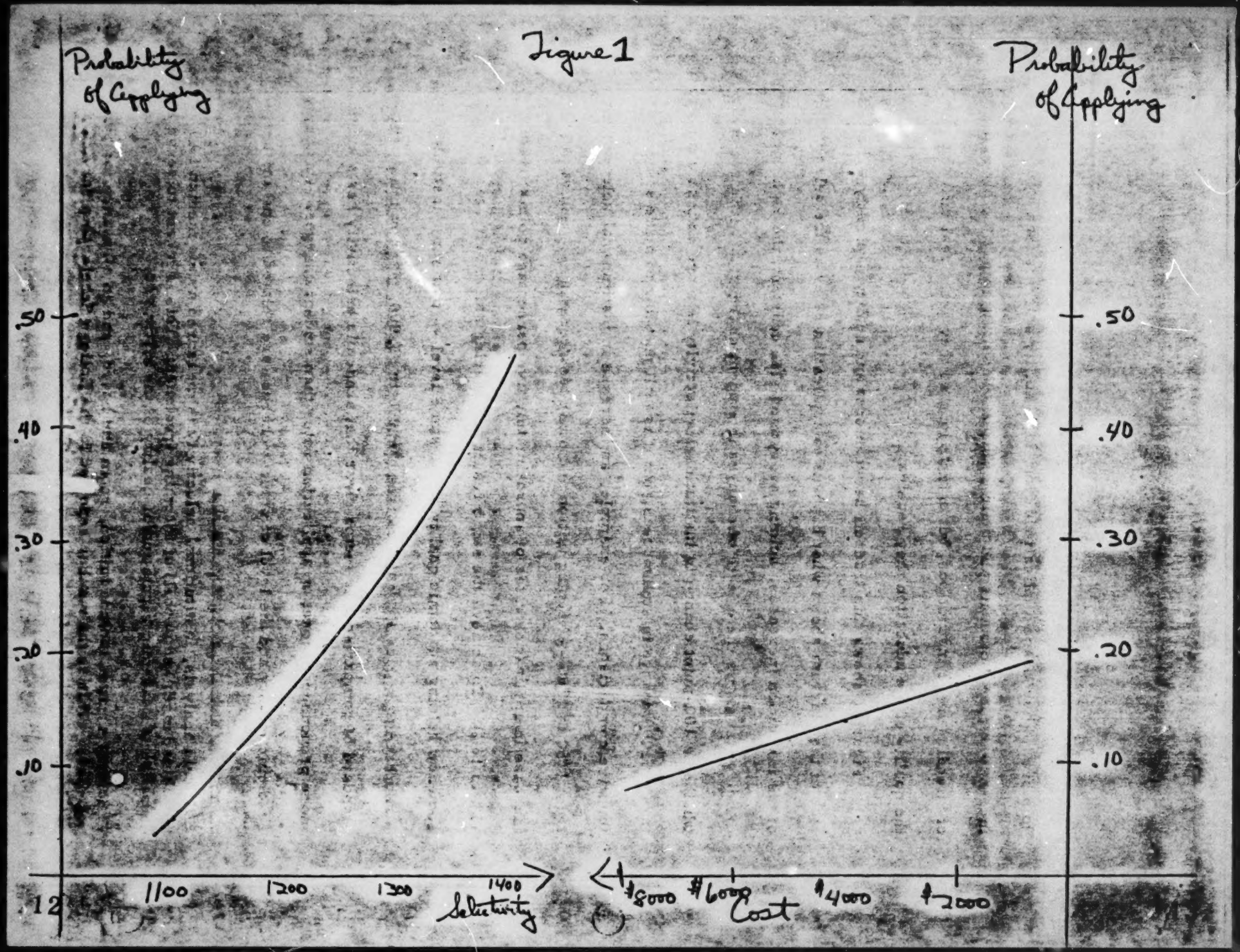
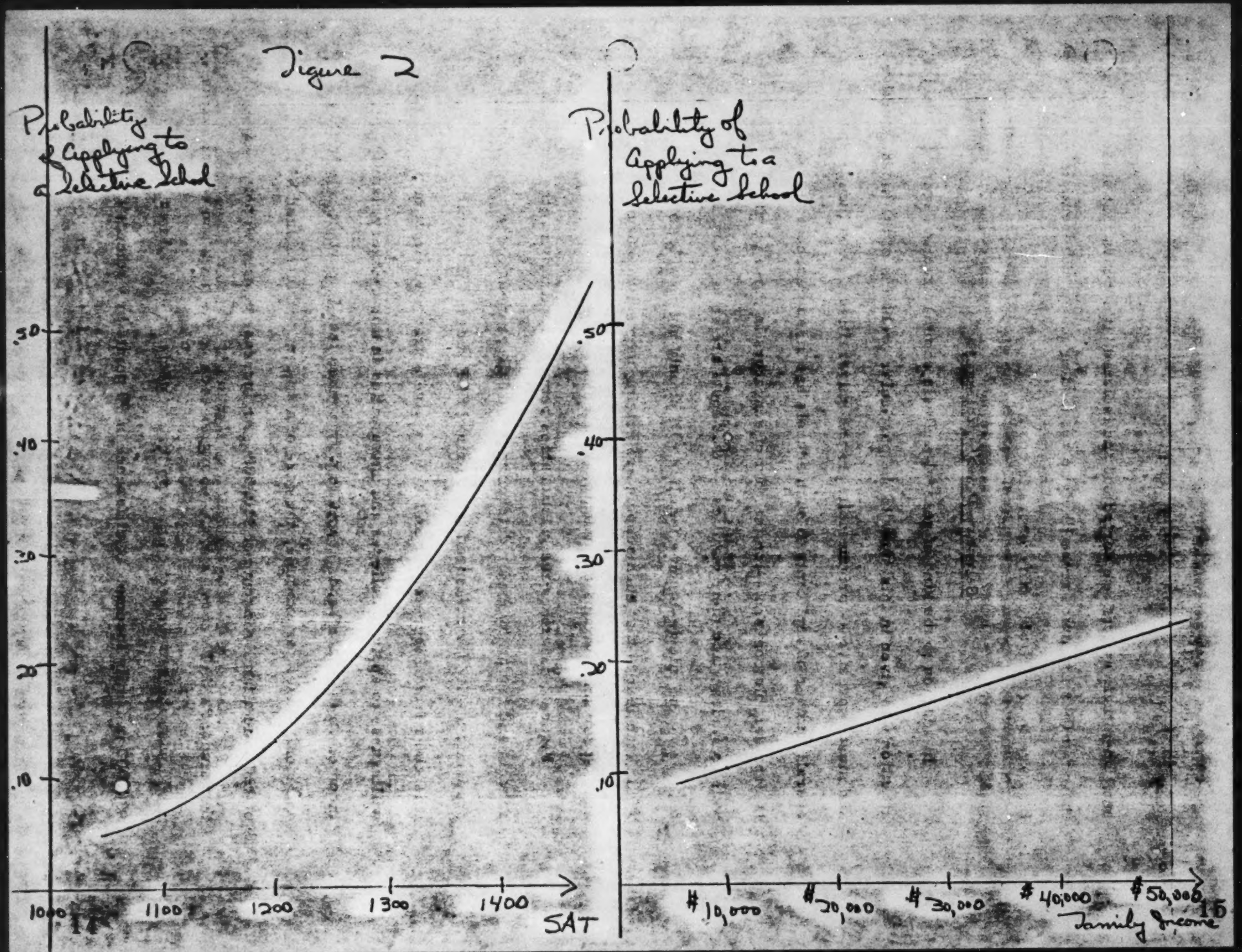


Figure 1
Probability of Applying
Probability of Applying
.50
.40
.30
.20
.10
1100
1200
1300
1400
Selectivity
$8000
$6000
$4000
$2000
Cost

Figure 2


Probability of Applying to a Selective School
.50
.40
.30
.20
.10
1000
1100
1200
1300
1400
SAT
Probability of Applying to a Selective School
.50
.40
.30
.20
.10
$10,000
$20,000
$30,000
$40,000
$50,000
Family Income

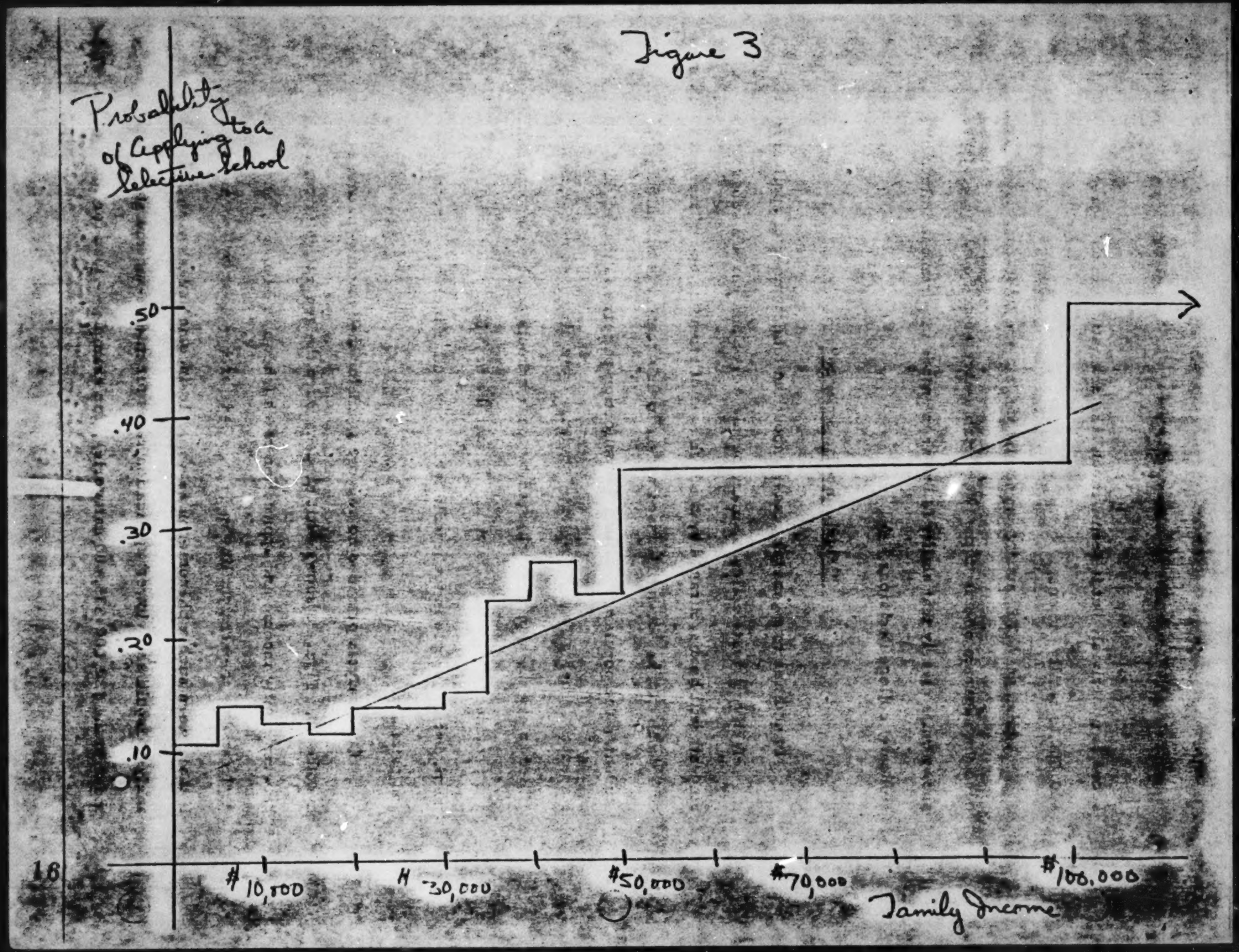


Figure 3
Probability of Applying to a Selective School
.50
.40
.30
.20
.10
$10,000
$30,000
$50,000
$70,000
$100,000
Family Income

Figure 4

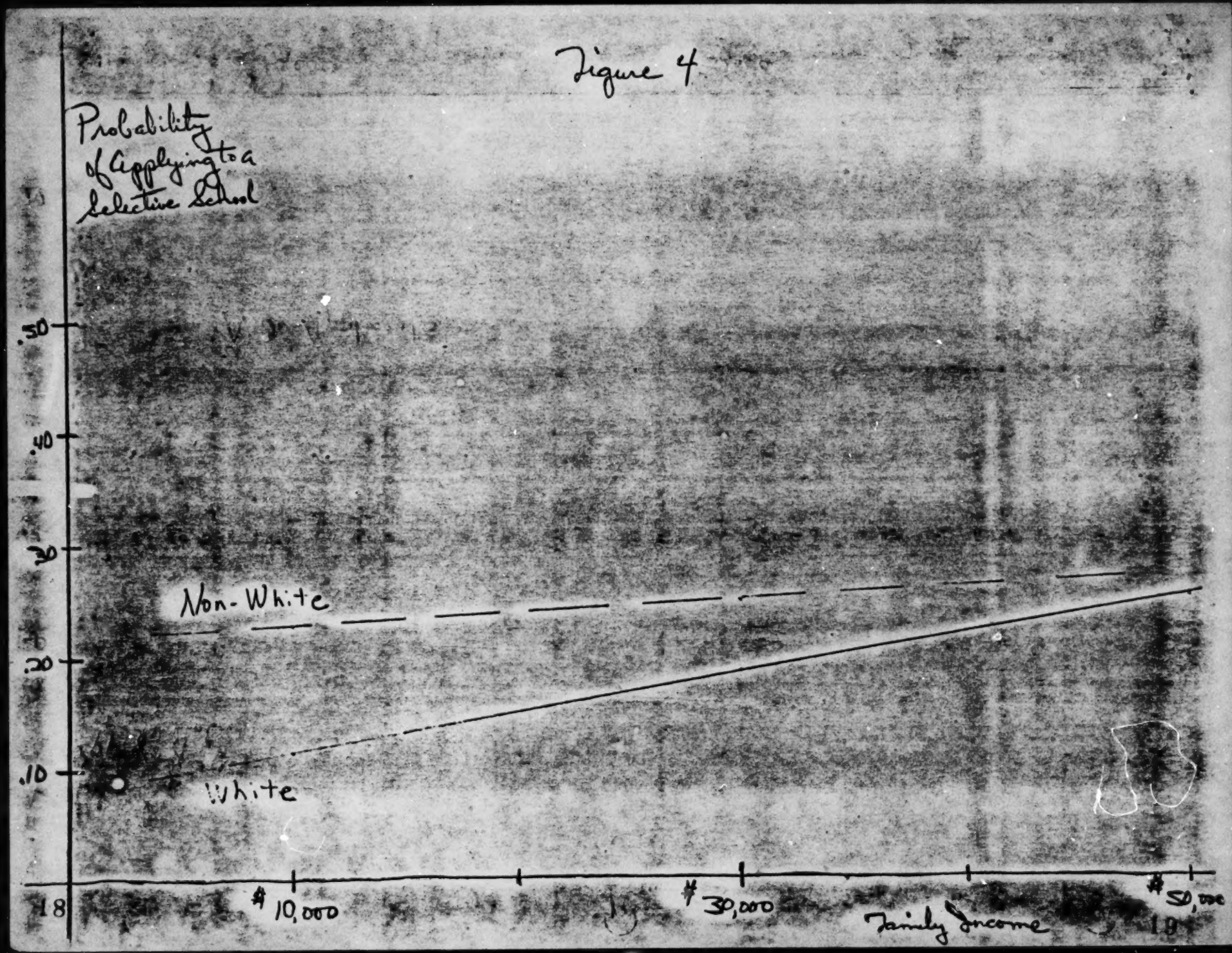
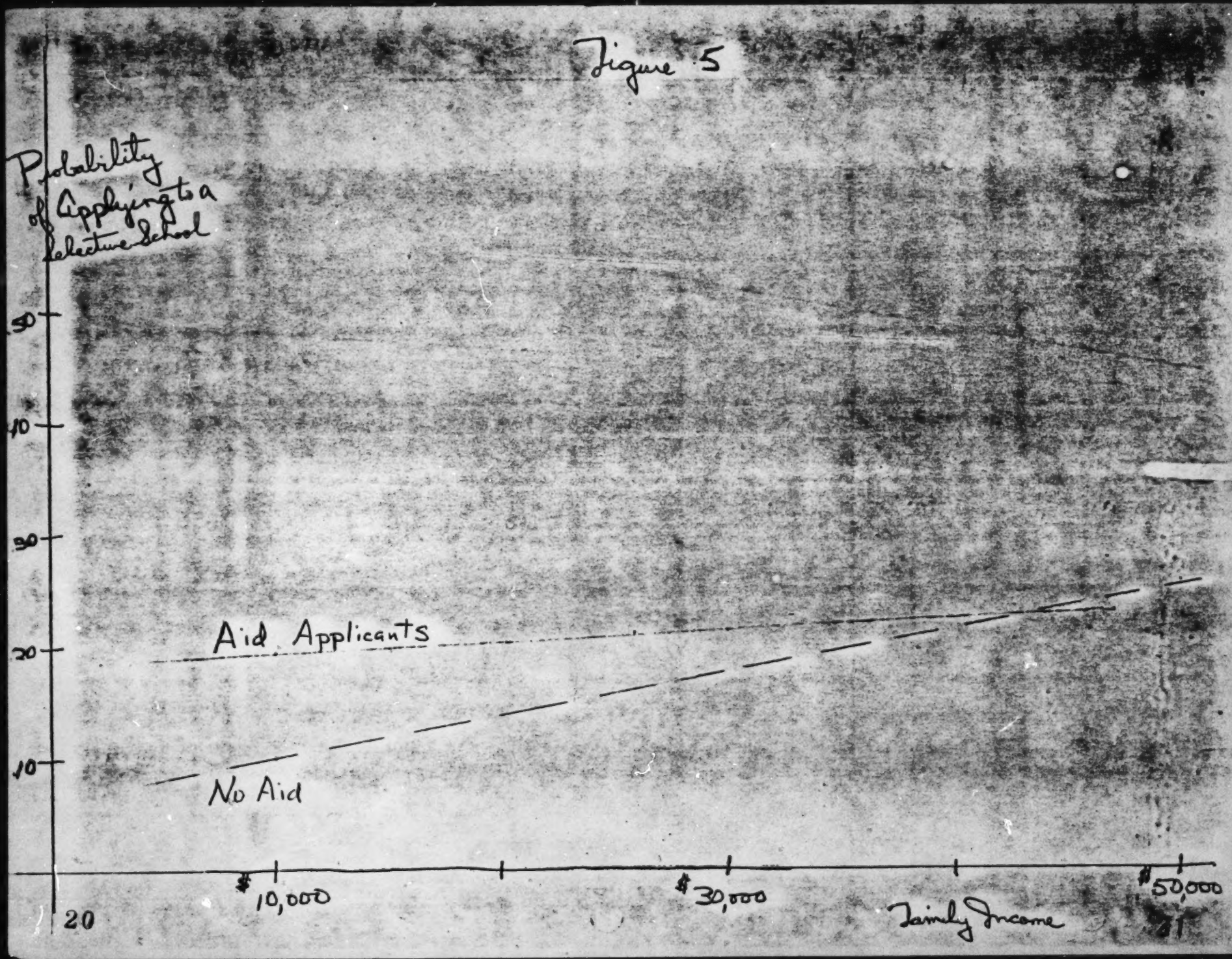

Probability of Applying to a Selective School
.50
.40
.30
.20
.10
Non-White
White
$ 10,000
$ 30,000
$ 50,000
Family Income

Figure 5


Probability of Applying to a Selective School
.50
.40
.30
.20
.10
Aid Applicants
No Aid
$10,000
$30,000
$50,000
Family Income
20
71